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PARIS FOR OECD  
STATE PASS TO USTR FOR AUSTR CUTLER AND MBEEMAN  
TREASURY PASS TO FEDERAL RESERVE BOARD (JKHOLI) AND SAN  
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SUBJECT: ABE LAYS GROUNDWORK FOR SOCIAL PROGRAMS

#### Summary

1. (SBU) Although Prime Minister Abe's campaign platform for addressing social disparity issues lacked detail, he has already laid significant groundwork for related government programs, according to Cabinet Office and ministry contacts. Six members of his so-called "second chance" parliamentary committee on creating societal and employment opportunities have found spots in either the cabinet or the Prime Minister's Office. Individual ministries have developed a slew of small-scale program proposals, and ministries have been told to plan for social programs in their budgets. We expect to see legislation calling for social programs in the 2007 Diet session and believe that the specifics of the programs and funding, once known, will be a useful indicator of how the Abe administration will balance economic reform issues of interest to the United States, budget control, and political demands. End summary.

#### Widening Social Inequality: Perceptions and Response

2. (SBU) Although there is disagreement about the nature and causes of current demographic and labor trends, Japanese society is engaged in a debate about whether there is a widening social divide between career workers and part-timers, between high- and low-income earners, and between the well-being of large cities and the declining fortunes of outlying regions. This conversation about Japan's "winner group" and "loser group" tugs at deeply held (though sometimes mythic) convictions about fairness and equality in Japanese society and the postwar labor system, and it spills into high-profile social issues such as Japan's falling birthrate.

3. (SBU) Prime Minister Abe made addressing social disparity

issues a theme of his campaign, using the slogan of a "second chance" to signal the intent to give people who feel left behind another chance to succeed. While his platform was vague on details, it suggested his administration might address social disparity issues through new social safety net and "family-friendly" programs targeting medical and pension benefits. Moreover, Abe immediately signaled his intent to emphasize these issues by adding a "second chance" portfolio to his new cabinet.

#### Groundwork Already Laid for Social Programs

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14. (SBU) Despite the lack of detail in Abe's platform, he has been laying the groundwork for programs to address social disparity issues since before he became Prime Minister, contacts in the Cabinet Office and at the Ministry of Health, Labor, and Welfare (MHLW) told Econoff in September meetings.

In March, as Chief Cabinet Secretary, Abe convened an interministerial group to study how to expand opportunities within Japanese society. The group mostly consisted of director general-level representatives from the Cabinet Office, the Financial Services Agency (FSA), the National Police Agency (NPA), the Japan Defense Agency (JDA), the Ministry of Internal Affairs and Communications (MIC), the Ministry of Justice (MOJ), the Ministry of Foreign Affairs (MOFA), the Ministry of Finance (MOF), the Ministry of Education (MEXT), the Ministry of Health, Labor, and Welfare (MHLW), the Ministry of Agriculture (MAFF), the Ministry of Economy, Trade, and Industry (METI), the Ministry of Transportation (MLIT), the Ministry of Environment (MOE), and the National Personnel Agency. (Note: A Japanese Director-General holds a position equivalent to an Assistant Secretary in a U.S. Federal Government Department.)

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15. (SBU) Abe has also engaged his fellow LDP politicians on social inequality issues. According to media reports, at least 94 LDP politicians from across factional lines joined Abe's parliamentary group studying "second chance" issues during the run-up to the LDP presidential election. Four of those members became cabinet ministers: Financial Services and "Second Chance" Minister Yuji Yamamoto; Minister of Internal Affairs Yoshihide Suga; Minister of Agriculture Toshikatsu Matsuoka; and Minister of State for Okinawan Affairs Sanae Takaichi. A fifth member, Yasuhisa Shiozaki, is now the Chief Cabinet Secretary (effectively the Deputy Prime Minister), and two other members, Eriko Yamatani and Hiroshige Seko, have been appointed as Special Advisors to the Prime Minister.

#### Bottom-up Program Development Approach

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16. (SBU) When the "second chance" interministerial group was formed, written principles were distributed of then Chief Cabinet Secretary Abe's vision of how to move towards a society of greater opportunity, according to an internal GOJ memorandum obtained from MHLW contacts. The memorandum stressed the importance of rewarding individual effort, of preventing the system from locking people into groups of winners and losers, and of preserving individuals' ability to make their own life decisions. It suggested the immediate need for programs targeting failed business owners, students who have failed school entrance exams, workers who have lost jobs due to restructuring, the sick and disabled, and those transitioning from one life stage to another (such as young people moving into adulthood, women returning to the workforce after having children, retirees, those starting businesses, and those seeking retraining). Over the medium term, it suggested studying how to build a new "life model," including fostering the societal participation of Japan's rapidly growing retiree population, increasing the range and flexibility of work options, reconsidering the traditional personnel system where new graduates move directly to career

positions, and "balancing" the difference in benefits between career and non-career workers.

¶7. (SBU) During the interministerial committee's March meeting, each participating ministry was tasked to prepare proposals within the suggested framework, according to a Cabinet Office contact, and an interim report was submitted in May. Given the bottom-up approach to program development, the report has a laundry-list quality. Proposals include expanding the social insurance system in order to address the needs of part-time and contract workers, increasing mid-career training opportunities, publicly lauding companies that hire people outside the traditional college-graduate-to-career-track system, and hiring career counselors. Several suggestions involve increasing the number of so-called "Hello Work" information sharing and counseling centers to match potential employees with employers. Abe visited one of those centers in Osaka in the run-up to the LDP presidential election.

¶8. (SBU) Ministries also received instructions to keep "second chance" programs in mind as they submitted budget requests in August, Cabinet Office contacts told Econoff. They explained that specific priorities for ministerial budgets have yet to be determined, which gives the ministries flexibility to respond to new programs legislated in the 2007 Diet session. While acknowledging the ability to adjust budgets, MHLW contacts were less sanguine about how easily "second chance" programs will be incorporated with other

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budget priorities, and the media have speculated that new social programs could keep the government from cutting discretionary ministerial spending as part of its fiscal consolidation plan.

#### Legislative Agenda

¶9. (SBU) The local media report that the Abe administration may submit a social disparity correction bill or a "second chance" promotion bill (or both) to the 2007 Diet session. Cabinet Office contacts told Econoff that the interministerial committee created by Abe aimed to use the new Labor Contracts Law, which is currently being drafted by MHLW, to advance "second chance" programs (the observations of industry contacts who work with MHLW on labor legislation corroborate this approach -- though some contacts question whether the bill will be ready in time). Moreover, MHLW officials told Econoff that "second chance" program provisions could appear in any of four pieces of labor legislation MHLW is now preparing for the 2007 Diet session.

#### Comment

¶10. (SBU) Regardless of the form the planned bills take, it is clear the Abe administration is pressing for "second chance" legislation during the 2007 Diet session. Politically, advancing such legislation before next year's Upper House elections would be a smart move for Abe, as he could blunt opposition complaints about the LDP's economic stewardship without directly taking a position on social disparity issues or criticizing previous LDP policies. Economically and socially, the laundry-list approach of many small-scale programs suggests tinkering in the short term while medium-term approaches are debated. While we will also be following how "second chance" programs affect efforts to increase labor mobility and productivity, the biggest immediate impact may well be on ministerial budget negotiations, where the Abe administration's need to balance the competing demands of social and economic reform, budget control, and domestic politics will play out.

SCHIEFFER